IMPORTANT

2002

YEAR END DIRECTIONS AND FORMS

PLEASE READ AND FOLLOW THESE PROCEDURES. IF YOU HAVE ANY QUESTIONS, CALL SHARON AT (303) 866-5806.

TO OBTAIN 2003 FEDERAL FORMS W-4s, W-4Ss, W-5s AND/OR CIRCULAR E's PLEASE CALL 1-800-829-FORM (3676) OR VISIT THE IRS WEBSITE AT www.irs.gov.

NOTE:

2003 FEDERAL TAXES WILL CHANGE.

PLEASE REMEMBER ALL COLORADO STATE TAXES MUST BE ROUNDED TO THE NEAREST DOLLAR. THIS INCLUDES ADDITIONAL COLORADO STATE TAX. ANY TRANSACTIONS YOU ENTER TO STATE TAX MUST ALWAYS BE EVEN DOLLARS.

IMPORTANT ITEMS INCLUDED

1. List of most asked questions and problems concerning W-2s and/or payrolls.

2. List of special earnings types and how to enter them into the CPPS.

3. Moving expense worksheet. This should help you calculate the taxable or non-taxable moving expenses.

4. The back of a 2002 W-2 explaining what each box on the W-2 represents. You can refer to this in order to answer employee questions about their W-2.

5. New information for 2003.

FREQUENTLY ASKED QUESTIONS/PROBLEMS

How do we calculate Medicare gross? Medicare gross is **all** monies paid to you (including regular pay, shift, overtime, bonus, awards, meals, etc.) less 125 plans. 125 plans are pretax insurances, flex health and flex dependent care, pretax bus passes and pretax parking.

Why doesn't local tax print on the W-2s and why can't an employee file local tax as a tax? IRS Publication **529, Miscellaneous Deductions,** page 5 states: "You can deduct an occupational tax charged at a flat rate by a locality for the privilege of working or conducting a business in the locality. If you are an employee, you can claim occupational taxes **only as a miscellaneous deduction** subject to the 2% limit; you cannot claim them as a deduction for taxes elsewhere on your return." Therefore we can't print our occupational privilege tax as an 'income tax' in box 21 of the W-2.

Anytime you hire an employee to work in **another state or transfer an employee to another state, please notify us immediately**. We have to apply for a tax account with the new state, and then conform to their reporting forms and payment schedules. The affected employee's W-2 must also show the correct state of employment.

We cannot do any refunds for previous years federal, state or local taxes. Once we transmit our file for W-2's, and subsequently file the 941's, we cannot change the tax amounts. It will be up to the employee to re-file their federal and/or state taxes to receive any refunds.

Medicare tax is the only tax that the IRS allows us to adjust. If you send us requests for Medicare refunds or Medicare is part of the overpayment calculations for a previous year, we also need a written statement from the employee stating they will not apply to IRS for a refund of the same tax.

PREPAYS

<u>Prepays</u> seem to be a real problem for many payroll officers.

Prepay dollars are collected for an employee who is not working & who wish to keep their own insurances, flex health, bus pass or PERA life current. ***Learn to use your suspended balance reports that you receive after every payroll is processed.*** Make sure the amounts on the report are correct and notify us of changes or deletions that need to be made.

A lot of confusion for many of you is the changing of **GTN's** by Central Payroll. We cannot enter any prepay dollars to a pretax **GTN**, so we have to change the pretax **GTN** to an after tax **GTN** before input**.**

If an employee is enrolled in PERA life insurance and prepaying their insurances, please be sure to collect that premium also. Lack of payment could result in cancellation of the life policy.

An example of a employee who is prepaying their insurances and is current on their payments would be:

> If the employee has Anthem (GTN 208), on the **Payroll Adjustment Worksheet (PAW)**, you have to change 208 to 207 on the **Prepayment** line with the dollar amount. Next, you will do a **One-time** to 207 for the dollar amount with a plus (+), and a **One-time** to 208 for $0.00 with an "R".
>
> It is a similar sequence for pretax dental. On the **Payroll Adjustment Worksheet (PAW)**, you have to change 238 to 237 on the **Prepayment** line with the dollar amount. Next, you will do a **One-time** to 237 for the dollar amount with a plus (+), and a **One-time** to 238 for $0.00 with an "R".
>
> For any of the life insurance GTN's (059, 241, 242, or 243), they are only entered on the **Prepayment** line. Anyone who is after tax for insurances would also be treated this way.

OVERPAYS – THE BIGGEST PROBLEM EVERY YEAR

When an employee is overpaid the following options are available:

1 Collect the overpayment from the next available payroll.

2 If the overpayment is a significant amount of money a payment plan may be set up in accordance with fiscal rules. As long as the employee is still being paid this payment plan may cross over the calendar year.

3 If the overpayment cannot be collected using option 1 or 2 an overpayment document must be processed through Central Payroll. The employee writes a check for the net overpay amount (payable to the State Treasurer). This check is sent to Central Payroll along with the "Cancel, Hand drawn, Overpay form", which we refer to as the "old fashioned CHOP form".

4 If the employee has been terminated and you cannot collect the necessary dollars, the best option available is to create an "IT" transaction debiting the appropriate accounts in your agency (to set up a receivable) and crediting Central Payrolls accounts. (Fund 100, Agency 998, Balance Sheet Account 2223). Send a copy of this "IT" document and the overpay form to Central Payroll. Handling the problem in this manner credits back the overpaid expense, including the State share of PERA and Medicare to your agency, as soon as the overpayment is processed in CPPS. If and when the employee sends you the 'net overpay', you deposit that check into your own accounts. If money is never received you may send the documentation to Central Collections.

Process the overpayments as soon as possible and definitely before the end of the year. Not processing overpayments in the correct year causes the need for amended tax returns. These take a lot of time and effort and possible penalties **<u>your agency</u>** will have to pay.

ATTENTION: THIS IS VERY IMPORTANT

If you must process an OVERPAYMENT for a terminated employee after calendar year end, federal state or local taxes cannot be included in the gross to net calculations.

It will be up to the employee to re-file their federal and/or state taxes to receive any refunds.

Medicare tax is the only tax that the IRS allows us to adjust. If you send us requests for Medicare refunds or Medicare is part of the overpayment calculations for a previous year, we also need a written statement from the employee stating they will not apply to IRS for a refund of the same tax.

W-2 CORRECTIONS

Your agency cannot change W-2s. Central Payroll reports this information to the IRS. If a W-2 must be corrected for any reason, send the request for a corrected W-2 (see attached) along with a copy of the incorrect W-2 to Central Payroll. If all payroll corrections are in place at year-end, there should be a minimum number of W-2s to correct.

PLEASE NOTE: *If a W-2C has to be filed for a corrected W-2 there is a possibility of a penalty, per IRS Notice 90-45.*

COPIES OF W-2's

If one of your employees needs a duplicate W-2 for any year **after** 1987 and including 2002, please Xerox the agency's copy of the W-2 Wage and Tax Statement for them. Central Payroll does not have to be contacted. If one of your employees needs a duplicate W-2 for any year **before** 1987, you will need to contact Central Payroll.

BACK OF 2002 W2

Notice to Employee

Refund. Even if you do not have to file a tax return, you should file to get a refund if box 2 shows Federal income tax withheld, or if you can take the earned income credit.

Earned income credit (EIC). You must file a tax return if any amount is shown in box 9. You may be able to take the EIC for 2002 if **(a)** you do not have a qualifying child and you earned less than $11,060, **(b)** you have one qualifying child and you earned less than $29,201, or **(c)** you have more than one qualifying child and you earned less than $33,178. You and any qualifying children must have valid social security numbers (SSNs). You cannot claim the EIC if your investment income is more than $2,550. **Any EIC that is more than your tax liability is refunded to you, but only if you file a tax return.** If you have at least one qualifying child, you may get as much as $1,503 of the EIC in advance by completing **Form W-5,** Earned Income Credit Advance Payment Certificate.

Clergy and religious workers. If you are not subject to social security and Medicare taxes, see **Pub. 517,** Social Security and Other Information for Members of the Clergy and Religious Workers.

Corrections. If your name, SSN, or address is incorrect, correct Copies B, C, and 2 and ask your employer to correct your employment record. Be sure to ask the employer to file **Form W-2c,** Corrected Wage and Tax Statement, with the Social Security Administration (SSA) to correct any name, SSN, or money amount error reported to the SSA on Form W-2. If your name and SSN are correct but are not the same as shown on your social security card, you should ask for a new card at any SSA office or call 1-800-772-1213.

Credit for excess taxes. If you had more than one employer in 2002 and more than $5,263.80 in social security and/or Tier 1 railroad retirement (RRTA) taxes were withheld, you may be able to claim a credit for the excess against your Federal income tax. If you had more than one railroad employer and more than $3,087.00 in Tier 2 RRTA tax was withheld, you also may be able to claim a credit. See your Form 1040 or 1040A instructions and **Pub. 505,** Tax Withholding and Estimated Tax.

Instructions

Box 1. Enter this amount on the wages line of your tax return.

Box 2. Enter this amount on the Federal income tax withheld line of your tax return.

Box 8. This amount is **not** included in boxes 1, 3, 5, or 7. For information on how to report tips on your tax return, see your Form 1040 instructions.

Box 9. Enter this amount on the advance earned income credit payments line of your Form 1040 or 1040A.

Box 10. This amount is the total dependent care benefits your employer paid to you or incurred on your behalf (including amounts from a section 125 (cafeteria) plan). Any amount over $5,000 also is included in box 1. You must complete **Schedule 2 (Form 1040A) or Form 244**1, Child and Dependent Care Expenses, to compute any taxable and nontaxable amounts.

Box 11. This amount is **(a)** reported in box 1 if it is a distribution made to you from a nonqualified deferred compensation or nongovernmental section 457 plan or **(b)** included in box 3 and/or 5 if it is a prior year deferral under a nonqualified or section 457 plan that became taxable for social security and Medicare taxes this year because there is no longer a substantial risk of forfeiture of your right to the deferred amount.

Box 12. The following list explains the codes shown in box 12. You may need this information to complete your tax return. Elective deferrals (codes D, E, F, G, H, and S) under all plans are generally limited to $11,000 ($14,000 for section 403(b) plans, if you qualify for the 15-year rule explained in Pub. 571). However, if you were at least age 50 in 2002, your employer may have allowed an additional deferral of up to $1,000 ($500 for section 401(k)(11) and 408(p) SIMPLE plans). This additional deferral amount is not subject to the overall limit on elective deferrals. For code G, the limit on elective deferrals may be higher for the last 3 years before you reach retirement age. Contact your plan administrator for more information. Amounts in excess of the overall elective deferral limit must be included in income. See the "Wages, Salaries, Tips, etc." line instructions for your tax return.

Note: *If a year follows code D, E, F, G, H, or S, you made a make-up pension contribution for a prior year(s) when you were in military service. To figure whether you made excess deferrals, consider these amounts for the year shown, not the current year. If no year is shown, the contributions are for the current year.*

A-Uncollected social security or RRTA tax on tips (include this tax on Form 1040. See "Total Tax" in the Form 1040 instructions).

B-Uncollected Medicare tax on tips (include this tax on Form 1040. See "Total Tax" in the Form 1040 instructions).

security wage base), and 5).

C-Cost of group-term life insurance over $50,000 (included in boxes 1, 3 (up to social

D-Elective deferrals to a section 401(k) cash or deferred arrangement. Also includes deferrals under a SIMPLE retirement account that is part of a section 401(k) arrangement.

E-Elective deferrals under a section 403(b) salary reduction agreement.

F-Elective deferrals under a section 408(k)(6) salary reduction SEP.

G-Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan.

H-Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan (see "Adjusted Gross Income" in the Form 1040 instructions for how to deduct).

J-Nontaxable sick pay (not included in boxes 1, 3, or 5).

K-20% excise tax on excess golden parachute payments (see "Total Tax" in the Form 1040 instructions).

L-Substantiated employee business expense reimbursements (nontaxable).

M-Uncollected social security or RRTA tax on cost of group-term life insurance over $50,000 (former employees only) (see "Total Tax" in the Form 1040 instructions).

N-Uncollected Medicare tax on cost of group-term life insurance over $50,000 (former employees only) (see "Total Tax" in the Form 1040 instructions).

P-Excludable moving expense reimbursements paid directly to employee (not included in boxes 1, 3, or 5).

R-Employer contributions to your Archer (MSA) (see **Form 885**3, Archer MSAs and Long-Term Care Insurance Contracts).

S-Employee salary reduction contributions under a section 408(p) SIMPLE (not included in box 1).

T-Adoption benefits (not included in box 1). You must complete **Form 883**9,Qualified Adoption Expenses, to compute any taxable and nontaxable amounts.

V-Income from exercise of nonstatutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5).

Box 13. If the "Retirement plan" box is checked, special limits may apply to the amount of traditional IRA contributions you may deduct.

Note: *Keep Copy C of Form W-2 for at least 3 years after the due date for filing your income tax return. However, to help* **protect your social security benefit***s, keep Copy C until you begin receiving social security benefits, just in case there is a question about your work record and/or earnings in a particular year. Review the information shown on your annual (for workers over 25) Social Security Statement.*

EARNINGS TYPES

Special earnings types are provided to record taxable income that may or may not have been paid through the payroll system. Explanations of the most common earnings types are given below. For additional information about these transactions, please contact Sharon at (303) 866-5806 or Collene at (303) 866-5804.

> **REMINDER:** These special earnings types should have been entered in CPPS when the earnings were paid. If this has been done, relatively few entries should be necessary at this time.

AWARDS AND PRIZES (AWD & BNS)

Prizes, awards and bonuses for services rendered to the State should be treated as wages and reported as income on the employee's W-2. Awards for excellence in community service, charitable activities and safety achievement are not included as income. **All gift certificates should be reported at face value.** Non-cash awards should be reported at the fair market value. Savings bonds should be reported at the fair market value of the bond on the date of the award.

Two earnings types can be used to report bonuses and awards/prizes as taxable income.

> Earnings type **AWD** increases an employee's taxable dollar balances without producing additional pay and should be used to record an award/prize/gift certificate given outside the payroll system.
>
> Earnings type **BNS** actually increases an employee's grosses and may be used to pay a bonus to an employee.

Neither earnings type generates a retirement (PERA) gross.

You may use a TX, an AP or a RA transaction to enter either AWD or BNS. Use the correct dollar amount and no hours.

VEHICLE USE

Ordinarily, employees are expected to reimburse the State for personal use of a State vehicle. The procedure for such reimbursement is by payroll deduction in the appropriate month to GTN element 055. Contact Fleet Management at (303) 287-6741 to determine the appropriate mileage rate. If you have not been doing this all year, you should take the deduction on the December payroll for the total amount. If an employee uses a State owned vehicle for personal purposes and does not reimburse the State, the value of the personal use is taxable income to the employee and should be recorded using earnings type **VUI**.

MEALS (MEL & MLA)

Meals paid or reimbursed to the employee are taxable income for the employee. This applies **only** to meal allowance for an early breakfast or a late dinner when travel is within a single day and a lodging reimbursement is **not** made.

> Use **<u>MEL</u>** earnings type when the employee is being paid for meal allowance through **CPPS**.
>
> Use **<u>MLA</u>** earnings type to record the dollars being paid through **COFRS** to the employee.

These transactions will build taxable grosses and taxes will be deducted from the employee. The meal allowance will show on the employee's pay stub. The transaction will **not allow** hours to be recorded as part of the transaction. A TX, AP, or an RA transaction may be used to enter the earnings codes. Use the correct dollar amount and no hours on the transaction.

<u>TUITION</u>

Payment for job related educational expenses, up to a maximum of $5,250.00, are exempt from federal income tax if the education *maintains or improves skills* required by the individual's employment. However, if the education is *required to meet the minimum requirements for the job, or the education will qualify the individual for a new trade or business,* then the education payments are subject to federal income tax.

If you need to enter any educational payments made for your employees, use a RA transaction with the earnings type of **<u>TUI</u>**, the correct dollar amount and no hours. The taxable grosses will build, but no taxes will be deducted from the employee except Medicare.

<u>WORKER'S COMPENSATION REIMBURSEMENTS (WKC & WKM) AND IOJ</u>

Worker's Compensation are payments made to an employee unable to work due to a covered injury or illness. The employee's taxable gross must be reduced by the amount of the payments. **<u>IOJ</u>** is used when the money is sent directly to the employee. **<u>WKC</u>** or **<u>WKM</u>** is used when the checks are sent to the agencies.

Worker's Comp claims made between Jan. 1, 1997 and January 1, 2000 & after March 31, 2000 until July 31, 2002 should use the **<u>IOJ</u>** policy that became effective January 1, 1997.

If the employee has been paid a full month's salary **AND** Pinnacol Assurance has reimbursed the employee 66 2/3% of his/her salary, the dollar amount paid by Pinnacol is entered into CPPS using **<u>IOJ.</u>**

> **<u>IOJ-</u>** will reduce the employee's gross pay, as well as all taxable and PERA grosses. ***(Remember, the employee's leave hours must be restored to the employee).*** An employee must be paid at the same time the **<u>IOJ</u>** transaction is entered.

For the period of January 1, 2000 through March 31, 2000 and any claims made after August 1, 2002 enter **WKC** or **WKM** as earnings codes for Worker's Compensation payments.

> **WKC**- earnings posted to this code will decrease taxable grosses and leave taxes withheld unchanged. This is for employee's who do NOT pay Medicare.
>
> **WKM**- earnings posted to this code will decrease taxable grosses and leave federal and state taxes unchanged, but WILL reduce Medicare grosses and taxes. This is used for employee's who pay Medicare tax.

Please use a RA transaction to enter these transactions using the lump sum amount, no hours and a **minus** (-) sign for **IOJ**, **WKC**, and **WKM**.

MOVING
REPORTING

The IRS has eliminated Form 4782 - *Employee Moving Expense Information.* Employers could continue providing similar information to employees in any format they wish if they find it helpful to employees.

DETERMINE THE TAXABLE STATUS OF THE MOVE:

If the employee **does not** meet the following two tests – ALL MOVING EXPENSES paid to the employee will be taxable to the employee.

When the employee **does** meet the two tests, the attached worksheet will explain which reimbursed expenses is taxable income to the employee.

TEST 1

DISTANCE TEST – Employee's new job location must be at least 50 miles farther from the employee's former home than the employee's old job location was.

Example:

> The old job location was 3 miles from the former home; the new job location must be at least 53 miles from the former home.

TEST 2

TIME TEST – The employee must be employed and work full time for at least 39 weeks after arriving at the new job location.

IDENTIFYING THE TAXABLE VS. NONTAXABLE MOVING EXPENSES

Qualified moving expenses an employer pays to a third party on behalf of the employee (e.g., to a moving company) will not be reported on Form W-2.

> Therefore any of the following expenses paid to a third party through COFRS does not need to be reported.

1. Cost of packing, crating and transporting household items and personal effect
2. Cost of storing and insuring household goods within 30-day period of move.
3. Cost of shipping a car.

Qualified moving expense reimbursements an employer pays to an employee will be reported in Box 12 form W-2 with letter code P.

Other moving expense reimbursements and payments made for nonqualified moving expenses, whether paid directly to a third party or not, will continue to be included in wages on Form W-2 in Boxes 1 and 5 and will still be subject to federal income tax withholding and Medicare taxes.

Some of these types of reimbursements include:

1. Moving from old to new residence
2. Pre-moving house hunting expenses
   Temporary living quarters for 30 days after employment
3. Miscellaneous expense

RELOCATION (MOVING) RCN, RPN, RCT & RPT
See worksheet to help determine which earnings code you use

RPT is used when the employee is paid through the **CPPS** and the reimbursed expenses are **taxable** to the employee. Federal, state and Medicare taxes will be taken on reimbursed items.

RCT is used when the employee's **taxable** reimbursable expenses will be paid through **COFRS** and no payment will be made in CPPS. Federal, state and Medicare taxes will be taken on reimbursed items.

RPN is used when the employee is paid through the **CPPS** and the reimbursed expenses are **not taxable** to the employee.

RCN is used when the employee's **non-taxable** reimbursable expenses will be paid through **COFRS** and no payment will be made in CPPS.

Use an AP, RA, or TX transaction code when preparing the timesheet. Do not input hours in the transaction when using **RPT, RCT, RPN** or **RCN**.

MOVING EXPENSE WORKSHEET

REIMBURSED EXPENSES TAXABLE TO EMPLOYEE

Moving from old to new residence
-all meals reimbursed ________________

Pre-moving house hunting expenses
-all reimbursements to employee ________________

Temporary living quarters for 30 days after employment
-all reimbursements to employee ________________

Miscellaneous expenses
-any reimbursed amount that is **not** incurred from moving household or personal goods ________________

Employee's use of his or her own car
-16 cents per mile ________________

REIMBURSED EXPENSES NOT TAXABLE TO EMPLOYEE BUT PAID DIRECTLY TO THE EMPLOYEE

Transportation of household goods
-cost of packing, crating, and transporting household items and personal effects ________________

-cost of storing and insuring household goods within 30 day period of move ________________

-cost of shipping a car ________________

Moving from old to new residence
-cost of transportation and lodging for employees members of their household ________________

-includes expenses incurred on day of arrival ________________

-employee's use of his or her own car
-actual expenses ____________
-12 cents per mile ____________

TOTAL ________________

PLEASE NOTE: FISCAL RULES NOW ALLOW THE REIMBURSEMENT OF .28 CENTS PER MILE TO BE PAID TO AN EMPLOYEE FOR THE BUSINESS USE OF A PERSONAL VEHICLE. THE IRS CHANGED THE TAXABILITY OF THIS PAYMENT IF IT PERTAINS TO MOVING.

THEREFORE FOR EVERY MILE PAID TO AN EMPLOYEE DUE TO MOVING:

.12 CENTS IS NON-TAXABLE (RPN OR RCN)
.16 CENTS IS TAXABLE (RPT OR RCT)

NEW FOR 2003

TRANSPORTATION BENEFITS

For 2003, an employee will be able to exclude up to $190 (increased from $185 in 2002) a month for qualified parking expenses and up to $100 a month for the combined value of transit passes and transportation in a commuter highway vehicle. The transit pass amount did not change from 2002.

401k/403b/457 PLAN CHANGES

The maximum deferrals will change again in 2003. If you are under 50, the maximum is $12,000 per plan. If you are over 50, the new maximum is $14,000.

The rules that went into effect with the (Economic Growth and Tax Relief Reconciliation Act of 2001" (EGTRRA) are still in place. Employees in multiple types of plans may take maximum contributions to a 457 and a 401(k) **OR** a 457 and a 403(b). *401(k) and 403(b) limits are still coordinated.*

INSURANCES

Effective January 1, 2003, all health, life, and dental premiums are now paid for in the current month.